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Pakistan Market

## FY09 Fiscal deficit detail review

MORNING BRIEFING



KSE100 Index: Closing 8769.24 ↑ (+93.57)

Ministry of Finance has released the much awaited FY09 fiscal accounts. As per the data, fiscal deficit for the year came in at 5.2% of GDP compared to initial estimate and IMF projection of 4.3%. In the 4QFY09 alone, MoF reported a deficit of 2.2% of GDP. The extra-ordinary deficit for the last quarter was led by aggressive development spending of Rs210bn, as a result of which the total expenditure came in at Rs455bn in FY09. Overall; the financing mix of the deficit was tilted in the favor of domestic (internal) financing, led by Rs251bn investment in NSS scheme and Rs260bn investments by banks.

### IMF target implication

The deficit target was missed by 90bps if compared to IMF projection. We believe the slippage in deficit is unlikely to strain IMF program, as Finance Ministry has already taken the performance waiver from IMF in the second review. Looking forward, we expect IMF to strictly follow the deadlines of performance criteria especially related to tax and electricity subsidies. In the latest review, IMF has set the following performance criteria to re-balance budgetary deficit.

**Prior action:** Amendment by a Presidential ordinance of the NEPRA Act to ensure 1) monthly determination by NEPRA of the fuel adjustment surcharge in line with international fuel prices, 2) quarterly determination of overall electricity tariffs by NEPRA and 3) notification of the adjusted tariffs within 15 days. Similarly, the government has reached a revised agreement with World Bank and ADB staff on a schedule for tariff increases that postpones the elimination of tariff differential subsidies to 2010/11.

**Subsequent action:** 1) By September 15 Government's approval of regulations to form new occupational groups within the FBR and revision of the structure of Regional Tax payer offices and 2) submission of the VAT law to Parliament by end of 2009.

### Revenue and expenditures at Glance

**Revenue:** Last year will be remembered as the most volatile year in the recent past, as oil prices remained volatile making an all time high of US\$147/bbl in July 2008 and a low of US\$32 in February 2009. While the former has impacted the expenditure side led by huge subsidies and the latter affected the overall FBR tax collection ability. Overall, tax revenue target was missed by fair margin and came in at Rs1.2trn (up 14.6%) or 9.2% of GDP. Direct tax collection growth remained dismal and came in at 13% compared to sales tax and excise duty. Both were up 17.3% and 38% respectively. The performance of non-tax revenue sector remained robust and depicted a growth of 44% led by SBP profits and defense income.

**Expenditure:** While the current expenditure rose by 9% and development expenditure remained at PRs455bn, lower than the target of 550bn. The fundamental reason for the containment of current expenditure was the pass down of fuel price subsidy and partly electricity subsidy. However, interest payment has slightly inched up to 637bn or 4.9% of GDP.

**Table: Fiscal operations at glance**

As % of GDP		(Rs mn)	
Total Revenue	14.1%	Budget deficit	680,407
Tax Revenue	9.2%	Financing	680,407
Nontax Revenue	4.9%	External	149,651
Total Expenditure	19.3%	Domestic	530,756
Current	15.6%	Non-Bank	223,846
Interest	4.9%	Bank	305,620
Defence	2.5%	Privatization Proceeds	1,290
Development Expenditure	3.5%		
Budget deficit	5.2%		

Source: MoF

### Budget deficit and financing

The deficit for the full-year came in at Rs680bn or 5.2% of GDP. Similar to FY08, the bulk of the financing was done through domestic sources. Though the external gross receipts

remained higher but the higher re-payment of external debt kept the share of external sources subdued. The majority of the domestic funding came through investments in saving schemes and bank investment in treasury bill.

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### Also in focus

#### Urea prices go up by Rs30 per bag

According to the news reports, urea producers have raised the price of urea by Rs 30 per bag due to rising costs and supply constraints. Ex-factory prices are now hovering around Rs 730 per bag. As per our discussion with the company officials, Engro has increased the prices while FFC and FFBL are expected to do so in the next couple of days.

According to our calculations, annualized per share impact of the price increase on earnings of Engro, FFC and FFBL will be Rs1.4, Rs1.3 and Rs0.25 respectively.

#### DG Khan dispatches up 45%YoY in August 2009

As per the provisional numbers, DG Khan Cement (DGKC) posted growth of 45%YoY for the month of August in total dispatches. The impressive growth is mainly due to 61%YoY growth in local dispatches while exports increased by 8%YoY. Price which fell to a low of Rs230/bag was the driving factor for growth in local dispatches. Moreover, on a month on month basis, local dispatches grew by 81%YoY while exports declined by 60%. Slowdown in exports continued with capacities coming online in the Middle Eastern region.

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